# PROXY STATEMENT

for

## SPECIAL MEETING OF STOCKHOLDERS

This statement is furnished in connection with the solicitation by the management of Philip Morris & Co. Ltd., Incorporated (herein called the Company or Philip Morris) of proxies to be used at a special meeting of the stockholders to be held on January 26, 1954, and any adjournment thereof. Record holders of Common Stock, $5 par value, at the close of business on January 5, 1954, will be entitled to one vote for each share held. On November 30, 1953, there were outstanding 2,448,121 shares of Common Stock, $5 par value (including 325 shares issuable upon exchange of shares of Common Stock, $10 par value). Holders of the Cumulative Preferred Stock of the Company will not be entitled to vote. A proxy on the enclosed form may be revoked at any time in so far as it has not been exercised.

### Proposed Acquisition of Common Stock of Benson and Hedges

Benson and Hedges had outstanding at the close of business November 30, 1953, 438,428 shares of Common Stock, $4 par value. Such number may be increased by the exercise of options for the purchase of an additional 3,394 shares, and by the issue of stock pursuant to the Benson and Hedges "Employees' Profit Sharing—Stock Bonus and Retirement Plan." There is no other class of authorized stock.

The resolution which will be presented to the special meeting contemplates the issue and exchange, on a share-for-share basis, of Philip Morris Common Stock, $5 par value, for Common Stock of Benson and Hedges, whether now outstanding or issued pursuant to the above mentioned options or plan. The exchange will not be made unless Philip Morris can acquire thereby at least 355,460 shares. The text of the resolution follows:

> RESOLVED, That the Board of Directors of the Company be, and it hereby is, authorized, in the name and on behalf of the Company, and subject to applicable requirements of law, (1) to acquire from holders of Common Stock, $4 par value, of Benson and Hedges, a New York corporation, such number of shares thereof as may be possible (but in no event less than 355,460 shares) in consideration of the issue by the Company of a like number of shares of its authorized Common Stock, $5 par value; (2) for such purpose, to make an exchange offer to holders of Common Stock, $4 par value, of Benson and Hedges at such time, for such period or extended period, and upon such other terms and conditions not inconsistent with the foregoing, as the Board may deem expedient; and (3) to do all things in its judgment necessary or proper to effectuate the purpose of this resolution.

While counsel have advised that submission of the proposed acquisition to stockholders is not required, the Board of Directors, in view of the size and importance of the transaction, deems such submission desirable and will be guided by its judgment of their response to the proposal. In no event, however, will the Board proceed with the transaction without the favorable vote of a majority of the shares of Common Stock represented at the special meeting. 1002332330

The terms of the proposed acquisition were negotiated with representatives of Benson and Hedges and Tobacco and Allied Stocks, Inc., the majority stockholder of Benson and Hedges.

Tobacco and Allied Stocks, Inc., and Benson and Hedges have respectively informed the Company that the former intends to accept the exchange offer, if made, and that the latter intends to recommend acceptance to its other stockholders. Certain further information regarding Tobacco and Allied Stocks, Inc., and arrangements relating to the directorate and management of Philip Morris and Benson and Hedges is set forth under the heading "Directors, Officers and Principal Stockholders".

## Recommendation of the Board of Directors

The Board of Directors believes the proposed acquisition to be in the interest of the Company.

**Benson and Hedges is the manufacturer of the well-known Parliament cigarette,** which brand accounts for approximately 97% of its dollar net sales. Though Benson and Hedges is not a large factor in the cigarette industry, Parliament is a valuable property. It is a mouth-piece cigarette with a recessed filter which is sold at a manufacturer's price higher than the other principal brands of filter cigarettes, and approximately 40% to 45% higher than the manufacturer's price of regular and king size popular-priced brands without filters. Production costs of Parliament exceed those of such popular-priced brands and may exceed those of the other principal filter brands. The distribution of Parliament, while of national scope, is selective, with primary emphasis on the larger cities. Parliament has an established public following and in the past several years has enjoyed an increased demand.

The demand for filter cigarettes has been increasing in recent years. There are presently three principal brands, in addition to Parliament, on the market. The three brands are manufactured by large tobacco companies, and two were introduced as recently as 1952 and 1953. While the demand is still small, both quantitatively and in relation to total cigarette demand, it has grown rapidly and has attained proportions which make it advisable that representation in this market be secured for Philip Morris. In the opinion of the Board, the acquisition of stock control of Benson and Hedges—the owner of a filter brand which has already gained public acceptance—is an advantageous way for Philip Morris to obtain the benefits of the demand for filter cigarettes.

The present proposal is not the Company's first step in that direction. Before the acquisition of Benson and Hedges was contemplated, studies and preparations had been undertaken with a view to the introduction of a new filter cigarette by Philip Morris. The introduction of a new brand on a national scale, however, is necessarily a matter of considerable hazard. While the Company proposes to continue with the development of its own filter cigarette, the Board feels it undesirable to rely solely on a new and untried brand for an interest in the filter field.

It is in this context that the acquisition of Benson and Hedges has commended itself to the Board. In reaching its conclusion, the Board has been impressed by the fact that the growth of Benson and Hedges in recent years has been achieved with a small sales force. It consists of approximately twenty persons, whereas Philip Morris can draw, to the extent deemed desirable, upon more than five hundred. It may be mentioned, too, as set forth in more detail under the heading "Directors, Officers and Principal Stockholders", that the Company expects to obtain the services of the two chief executives of Benson and Hedges.

In determining the exchange ratio, the Board of Directors considered earnings, book values, capital structures, size of the companies, market prices, dividends and other factors deemed relevant. For expert assistance in such determination, the Board retained the services of the investment banking firm of Morgan Stanley & Co., New York City, a firm well versed in tobacco equities, which participated in the underwriting in 1950 of stock of Philip Morris and participated in and managed the underwriting in 1952 of debentures of Benson and Hedges. A copy of the report of Morgan Stanley & Co., dated October 1, 1953, is available for inspection by stockholders at the office of the Secretary of Philip Morris, 100 Park Avenue, New York City.

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It was the view of Morgan Stanley & Co. that, in attempting to determine relative values, earnings--particularly estimated future earnings—should be given substantial consideration. Their report pointed out that, as the impact of the federal excess profits tax upon Benson and Hedges was considerably greater than upon Philip Morris, the former would derive a relatively greater benefit from the expiration of the tax on December 31, 1953, as is presently provided. The tables under the heading "Comparison of Earnings Per Share of Common Stock", which set forth per share earnings of the two companies over a period of several years, indicate the effect of the excess profits tax thereon.

The report concluded that some substantial premium over the then market prices should be attributed to the Benson and Hedges shares in any exchange offer, and recommended a share-for-share exchange ratio from the points of view of the stockholders of both companies. The recommendation was reaffirmed on December 16, 1953.

Necessarily, a proposal such as that under consideration involves business risks and calls for the exercise of business judgment. The cigarette industry in general is highly competitive. Competition has recently increased in the filter field. As the large companies move aggressively into that field, the competition will become even keener. The ultimate effect on the sales of high-priced brands like Parliament cannot now definitely be determined and may be substantial (see tables under the heading "Sales and Production"). Similarly, changes in economic conditions may influence the purchase of the more expensive brands unfavorably. Again, filter cigarettes are relatively new in the United States and future improvements in the field may conceivably require alterations in Parliament the effect of which cannot be foretold. The Board can give no assurances. It is persuaded by its best judgment, however, that the exchange offer is a fair one which it is in the interest of Philip Morris to make, and accordingly recommends that the stockholders vote in favor of it.

## Capitalization of Philip Morris and Benson and Hedges

The table below shows the capitalization of the Company, and the consolidated capitalization of Benson and Hedges and its subsidiaries, as of October 31, 1953, and as adjusted to give effect to the exchange offer.

| | Authorized | Outstanding as of October 31, 1953 | Adjusted to reflect 100% acceptance of exchange offer |
|---|---|---|---|
| PHILIP MORRIS | | | |
| Funded Debt | | | |
| 2⅝% Sinking Fund Debentures, maturing April 1, 1966 (Sinking Fund payments commence March 31, 1956) ........... | $32,000,000 | $32,000,000 | $32,000,000 |
| Short Term Notes ...................... | | $62,000,000(1) | $62,000,000(1) |
| Capital Stock | | | |
| Cumulative Preferred Stock, par value $100 per share, issuable in series....... | 317,156 shs.(2) | | |
| 4% Series ......................... | | 181,834(3) | 181,834(3) |
| 3.90% Series ..................... | | 124,070(3) | 124,070(3) |
| Common Stock, par value $5 per share ... | 3,000,000 shs. | 2,448,121(4) | 2,886,549(4)(5)(6) |

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| | Authorized | Outstanding as of October 31, 1953 | Adjusted to reflect 100% acceptance of exchange offer |
|---|---|---|---|
| **Benson and Hedges** | | | |
| Funded Debt(7) | | | |
| Fifteen Year 4¼% Sinking Fund Debentures, due October 1, 1967 ............ | $ 3,000,000 | $ 2,800,000 | $ 2,800,000(8) |
| 3¼% First Mortgage of 585 Water Street Realty Corporation, $455 payable quarterly to 1957; due April 1, 1957........ | $ 72,500 | $ 69,770 | $ 69,770(8) |
| Short Term Notes ....................... | | $ 2,250,000(9) | $ 2,250,000(8)(9) |
| Common Stock, par value $1 per share...... | 1,000,000 shs. | 438,428(10) | 438,428(10) |

NOTES:

(1) On December 26, 1953, the amount outstanding was $58,500,000.

(2) Including 6,612 shares redeemed but not yet formally retired pursuant to Virginia statutes, and excluding 32,844 originally authorized and issued shares which have been so retired. None of the shares mentioned in this note may be reissued.

(3) Exclusive of 2,021 shares of 4% Series and 2,619 shares of 3.90% Series held in treasury.

(4) Including 325 shares reserved for issuance in exchange for Company's previously authorized Common Stock, par value $10 per share.

(5) Subject to increase to the extent that the exchange offer is accepted in respect of shares of Benson and Hedges Common Stock hereafter issued pursuant to the "Employees' Profit Sharing—Stock Bonus and Retirement Plan" or pursuant to the exercise of options granted under the "Employees' Restricted Stock Option Plan". (See "Business of Benson and Hedges" herein.) As of October 31, 1953, such options were outstanding in respect of 3,394 shares. The Board of Directors of Benson and Hedges has resolved that no options in addition to those outstanding on that date shall be granted prior to the expiration of the exchange offer.

(6) Preemptive rights, if any, of the Common Stock to be issued pursuant to the exchange offer have not been limited by the Company's certificate of incorporation as amended.

(7) Includes amounts due within one year.

(8) As soon as practicable after the consummation of the exchange, it is intended to retire the funded debt and short term notes of Benson and Hedges (at a premium of 4% in the case of the Fifteen Year 4¼% Sinking Fund Debentures) with funds to be borrowed by Philip Morris and loaned by it to Benson and Hedges.

(9) On December 26, 1953, the amount outstanding was $6,150,000.

(10) Subject to increase upon the issuance of the shares or the exercise of the options referred to in note (5).

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## Results of Operations

The following summary statement of results of operations of Philip Morris has been reviewed by Lybrand, Ross Bros. & Montgomery, independent certified public accountants, and the summary statement of Benson and Hedges and subsidiary companies has been reviewed by Collins & Company, independent public accountants. These summary statements are included in reliance upon the opinions of said firms included herein. The statements should be read in conjunction with the applicable financial statements and the notes thereto included herein.

### PHILIP MORRIS

| | | | | | | | | Per Share of Common Stock (Note 4) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Based on Shares Outstanding at End of Respective Periods (Note 5) | | |
| Fiscal Years Ended March 31 | Net Sales (Note 1) | Cost of Goods Sold (Note 1) | Shipping, Selling, General and Administrative Expenses | Other Deductions (Net of Other Income) (Note 2) | Income before Federal and State Taxes on Income | Federal and State Taxes on Income (Note 3) | Net Earnings | Earnings | Cash Dividends Declared (including extras) | Earnings Based on Shares Outstanding Oct. 31, 1953 |
| 1949 ........ | $228,372,099 | $188,655,871 | $17,499,145 | $1,557,025 | $20,660,058 | $ 8,162,000 | $12,498,058 | $5.57 | $2.48 | $4.77 |
| 1950 ........ | 255,752,488 | 208,985,530 | 19,470,228 | 2,129,546 | 25,167,184 | 9,864,000 | 15,303,184 | 6.92 | 2.86 | 5.93 |
| 1951 ........ | 305,804,331 | 245,937,345 | 22,496,784 | 2,283,057 | 35,087,145 | 18,398,000 | 16,689,145 | 6.31 | 2.86 | 6.31 |
| 1952 ........ | 300,698,324 | 248,977,304 | 25,319,811 | 4,054,069(6) | 28,347,140 | 15,720,000 | 12,627,140 | 4.65 | 3.00 | 4.65 |
| 1953 ........ | 314,894,718 | 259,732,580 | 29,989,456 | 2,944,482 | 22,228,200 | 10,883,000 | 11,345,200 | 4.13 | 3.00 | 4.13 |
| 7 mos. to Oct. 31, 1953 | 180,486,468 | 144,010,719 | 16,520,535 | 1,844,781 | 18,110,433 | 9,906,000 | 8,204,433 | 3.10 | 1.50 | 3.10 |

NOTES:

(1) Includes U. S. Internal Revenue Stamps affixed to products sold, as follows: 1949, $112,846,333; 1950, $125,046,204; 1951, $147,312,301; 1952, $148,812,213; 1953, $157,266,405; and seven months ended October 31, 1953, $84,959,249.

(2) Includes interest on funded debt and short-term loans, as follows: 1949, $1,099,523; 1950, $1,667,913; 1951, $1,947,878; 1952, $2,873,634; 1953, $3,065,823; and seven months ended October 31, 1953, $1,514,568.

(3) Includes Federal excess profits taxes, as follows: 1951, $2,686,000; 1952, $700,000; 1953, credit of $700,000; and seven months ended October 31, 1953, $380,000.

(4) After preferred dividend payments: 1949, $817,680; 1950, $789,256; 1951, $1,253,047; 1952, $1,244,311; 1953, $1,231,567 and seven months ended October 31, 1953, $606,579.

(5) Data for the fiscal years ended March 31, 1949 to 1951, inclusive, have been adjusted to give effect to a 5% stock dividend paid in April, 1951. During June, 1950, 333,077 additional shares of common stock were sold for cash.

(6) Includes $635,998 paid for cancellation of export contract.

### BENSON AND HEDGES (Consolidated)

| | | | | | | | | Per Share of Common Stock (Note 4) | |
|---|---|---|---|---|---|---|---|---|---|
| Years Ended December 31 | Net Sales (Notes 1 and 6) | Cost of Goods Sold (Note 1) | Shipping, Selling, General and Administrative Expenses (Note 6) | Other Deductions (Net of Other Income) (Note 2) | Income before Federal Taxes on Income | Federal Taxes on Income (Note 3) | Net Earnings | Earnings Based on Shares Outstanding at End of Respective Periods (Note 5) | Earnings Based on Shares Outstanding October 31, 1953 |
| 1948 ....... | $ 4,847,580 | $ 3,595,450 | $ 753,553 | $ 2,968 | $ 495,609 | $ 187,890 | $307,719 | $ .85 | $ .62 |
| 1949 ....... | 7,038,104 | 5,087,212 | 1,001,009 | 6,802 | 943,081 | 357,703 | 585,378 | 1.42 | 1.28 |
| 1950 ....... | 10,362,063 | 7,504,022 | 1,418,445 | 13,987 | 1,425,609 | 674,813 | 750,796 | 1.90 | 1.71 |
| 1951 ....... | 14,130,058 | 10,216,807 | 1,838,502 | 81,137 | 1,993,612 | 1,213,091 | 780,521 | 1.97 | 1.78 |
| 1952 ....... | 19,958,343 | 14,710,952 | 2,553,413 | 99,633 | 2,594,345 | 1,699,733 | 894,612 | 2.04 | 2.04 |
| 1953: | | | | | | | | | |
| 10 mos. to Oct. 31 .. | 22,386,703 | 16,143,882 | 2,918,671 | 127,754 | 3,196,396 | 2,140,854 | 1,055,542 | 2.41 | 2.41 |
| 3 mos. to Mar. 31 .. | 6,598,154 | 4,796,179 | 743,083 | 36,444 | 1,022,448 | 703,080 | 319,368 | .73 | .73 |
| 7 mos. to Oct. 31 .. | 15,788,549 | 11,347,703 | 2,175,588 | [illegible] | 2,173,948 | 1,437,774 | 736,174 | 1.68 | 1.68 |

**Notes:**

(1) Includes U. S. Internal Revenue Stamps affixed to products sold, as follows: 1948, $1,612,028; 1949, $2,350,920; 1950, $3,436,722; 1951, $4,690,871; 1952, $7,076,915; three months ended March 31, 1953, $2,328,465; seven months ended October 31, 1953, $5,392,402; and ten months ended October 31, 1953, $7,720,867.

(2) Includes interest, as follows: 1948, $9,915; 1949, $16,116; 1950, $29,849; 1951, $101,737; 1952, $130,673; three months ended March 31, 1953, $48,017; seven months ended October 31, 1953, $124,601; and ten months ended October 31, 1953, $172,618.

(3) Includes Federal excess profits taxes, as follows: 1950, $81,549; 1951, $236,281; 1952, $379,898; three months ended March 31, 1953, $171,407; seven months ended October 31, 1953, $350,153; and ten months ended October 31, 1953, $521,560.

(4) After preferred dividend requirements of $34,360 in 1948 and $25,700 in 1949.

(5) Shares outstanding at end of respective periods were adjusted to give effect to a recapitalization effected October 5, 1950, whereby each outstanding share of common stock, without par value, was changed into four shares of common stock, par value $1 per share. Data for the years ended December 31, 1948 and 1949 have been adjusted to give effect to a 10% stock dividend paid in December 1950. During November, 1952, 39,738 additional shares of common stock were sold for cash. The only cash dividend on common stock during the period was 50 cents per share in 1948 which was the equivalent of 12½ cents per share after giving effect to the recapitalization.

(6) In previous reports, cash discounts were included as general and administrative expenses. Net sales and general and administrative expenses (as reported herein) have been adjusted to reflect cash discounts as a deduction from sales.

Reference is made to "Business of Benson and Hedges" for information regarding increases in cigarette selling prices and in leaf tobacco costs.

## Comparison of Earnings Per Share of Common Stock

| Years (Note 1) | Earnings Per Share: Philip Morris (Before Exchange) (Note 2) | Earnings Per Share: Benson and Hedges (Note 2) | Earnings Per Share: Pro-forma Combined (Note 3) | Earnings Per Share Before Reflecting Federal Excess Profits Taxes or Refunds Thereof (Note 4): Philip Morris (Before Exchange) (Note 2) | Earnings Per Share Before Reflecting Federal Excess Profits Taxes or Refunds Thereof (Note 4): Benson and Hedges (Note 2) | Earnings Per Share Before Reflecting Federal Excess Profits Taxes or Refunds Thereof (Note 4): Pro-forma Combined (Note 3) |
|---|---|---|---|---|---|---|
| 1949 | $4.77 | $ .62 | $4.14 | $4.77 | $ .62 | $4.14 |
| 1950 | 5.93 | 1.28 | 5.22 | 5.93 | 1.28 | 5.22 |
| 1951 | 6.31 | 1.71 | 5.61 | 7.40 | 1.90 | 6.57 |
| 1952 | 4.65 | 1.78 | 4.22 | 4.94 | 2.32 | 4.54 |
| 1953 | 4.13(5) | 2.04 | 3.81 | 3.84(5) | 2.91 | 3.70 |
| 7 months ended Oct. 31, 1953 | 3.10 | 1.68 | 2.89 | 3.26 | 2.48 | 3.14 |

**Notes:**

(1) Data for Philip Morris are for the fiscal years ended March 31 of the years stated and for Benson and Hedges for the preceding calendar year.

(2) Based on shares outstanding at October 31, 1953.

(3) The amounts per share for each annual period are based upon earnings applicable to the common stock of Philip Morris for the fiscal year ended March 31 of each year combined with similar data for Benson and Hedges for the preceding calendar year. The calculations are based on a total of 2,886,549 shares of Philip Morris common stock to be outstanding (assuming 100% exchange of Benson and Hedges shares outstanding at October 31, 1953). The shares to be outstanding may be increased as a result of the provisions of the "Employees' Restricted Stock Option Plan" and "Employees' Profit Sharing—Stock Bonus and Retirement Plan" of Benson and Hedges described under the heading "Business of Benson and Hedges."

(4) Under present provisions of the Internal Revenue Code, excess profits taxes expire at the end of 1953; however, no prediction is made that such taxes may not be reimposed in the future.

(5) Earnings per share of $4.13 reflects a refund of excess profits taxes under carry-back provisions of Internal Revenue Code amounting to $700,000; earnings per share before excess profits taxes ($3.84) excludes such refund.

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## Sales and Production

### UNIT SALES OF CIGARETTES

| Calendar Year | Benson and Hedges—All Brands: Number of Cigarettes (000) | Benson and Hedges—All Brands: Increase over Preceding Year (or Same Period Thereof) % | Parliament Brand: Number of Cigarettes (000) | Parliament Brand: Increase over Preceding Year (or Same Period Thereof) % | Philip Morris—All Brands: Number of Cigarettes (000) | Philip Morris—All Brands: Increase over Preceding Year (or Same Period Thereof) % |
|---|---|---|---|---|---|---|
| 1946 | 308,210 | — | 158,815 | — | 29,001,659 | — |
| 1947 | 356,924 | 15.8 | 235,250 | 48.1 | 26,577,242 | (8.4) |
| 1948 | 463,617 | 29.9 | 348,876 | 48.3 | 32,460,298 | 22.1 |
| 1949 | 673,399 | 45.2 | 570,422 | 63.5 | 36,533,385 | 12.5 |
| 1950 | 985,661 | 46.4 | 893,999 | 56.7 | 43,001,002 | 17.7 |
| 1951 | 1,315,140 | 33.4 | 1,234,432 | 38.1 | 44,019,339 | 2.4 |
| 1952 | 1,796,745 | 36.6 | 1,726,315 | 39.8 | 41,533,691 | (5.6) |
| 11 mos. 1953 | 2,181,944 | 35.1 | 2,135,506 | 37.8 | 37,355,032 | (0.8) |
| 1st Quarter(1) | 597,882 | 59.9 | 584,542 | 64.0 | 10,929,121 | 11.4 |
| 2nd Quarter(1) | 573,476 | 35.8 | 560,467 | 38.5 | 10,033,599 | (6.1) |
| July | 218,105 | 34.0 | 213,633 | 36.6 | 3,575,038 | (5.1) |
| August | 186,719 | 12.8 | 182,551 | 14.4 | 3,409,374 | (6.9) |
| September(2) | 196,771 | 24.0 | 192,454 | 25.9 | 3,399,971 | 0.9 |
| October | 211,490 | 22.6 | 207,969 | 24.9 | 2,949,931 | (13.3) |
| November | 197,501 | 24.6 | 193,890 | 27.0 | 3,057,928 | 2.7 |

(1) The table below shows for both companies and the Parliament brand the percentage increase over the same period of the preceding year for the months January through June, 1953. Both companies, and the industry generally, increased prices near the end of February when price controls were terminated. The king-size Philip Morris brand was introduced in January.

| | January | February | March | April | May | June |
|---|---|---|---|---|---|---|
| Benson and Hedges | 53.6% | 46.9% | 79.3% | 45.3% | 26.0% | 36.2% |
| Parliament | 57.9% | 50.4% | 83.8% | 48.3% | 28.6% | 38.8% |
| Philip Morris | (3.4%) | 23.9% | 15.3% | (3.8%) | (8.7%) | (5.6%) |

(2) The king-size Parliament brand was introduced in selected markets in September, 1953. Unit sales thereof have been as follows: September, 3,394,000; October, 4,489,000; November, 2,540,000.

( ) Denotes decrease

## PRODUCTION OF CIGARETTES

| Calendar Year | Benson and Hedges—All Brands: Number of Cigarettes (000) | Benson and Hedges—All Brands: Increase over Preceding Year (or Same Period Thereof) % | Benson and Hedges—All Brands: Percentage of Industry | Philip Morris—All Brands: Number of Cigarettes (000) | Philip Morris—All Brands: Increase over Preceding Year (or Same Period Thereof) % | Philip Morris—All Brands: Percentage of Industry | Industry(3): Number of Cigarettes (000) | Industry(3): Increase over Preceding Year (or Same Period Thereof) % |
|---|---|---|---|---|---|---|---|---|
| 1946 | 300,066 | — | 0.09 | 26,832,966 | — | 7.7 | 350,038,093 | — |
| 1947 | 365,958 | 22.0 | 0.10 | 26,091,738 | (2.8) | 7.1 | 369,682,769 | 5.6 |
| 1948 | 465,799 | 27.3 | 0.12 | 33,095,817 | 26.8 | 8.6 | 386,825,746 | 4.6 |
| 1949 | 687,950 | 47.7 | 0.18 | 36,715,015 | 10.9 | 9.5 | 384,961,695 | (0.5) |
| 1950 | 994,952 | 44.6 | 0.25 | 43,466,740 | 18.4 | 11.1 | 391,955,743 | 1.8 |
| 1951 | 1,326,248 | 33.3 | 0.32 | 44,676,797 | 2.8 | 10.7 | 418,801,801 | 6.8 |
| 1952 | 1,795,503 | 35.4 | 0.41 | 41,904,996 | (6.2) | 9.6 | 435,546,869 | 4.0 |
| 11 mos. 1953 | 2,251,783 | 38.3 | — | 36,778,589 | (4.0) | — | — | — |
| 1st Quarter(1) | 599,510 | 54.4 | 0.56 | 10,885,550 | 8.8 | 10.1 | 107,614,797 | 4.6 |
| 2nd Quarter(1) | 641,863 | 59.6 | 0.62 | 10,424,919 | (2.8) | 10.0 | 103,980,719 | (3.5) |
| July | 191,072 | 16.8 | 0.58 | 2,800,863 | (12.3) | 8.5 | 33,110,381 | (9.7) |
| August | 185,656 | 13.1 | 0.49 | 3,422,252 | (9.3) | 9.1 | 37,650,895 | (6.4) |
| September(2) | 206,282 | 26.2 | 0.56 | 3,407,758 | (4.5) | 9.2 | 36,885,163 | (7.1) |
| October | 230,855 | 21.5 | 0.61 | 3,211,099 | (19.2) | 8.5 | 37,974,138 | (9.0) |
| November | 196,545 | 25.8 | — | 2,626,147 | (14.5) | — | — | — |

(1) The table below shows for both companies the percentage increase over the same period of the preceding year and the percentage of industry production, for the months January through June 1953. Both companies, as well as the industry generally, increased prices near the end of February, when price controls were terminated. The king-size Philip Morris brand was introduced in January.

| | January | February | March | April | May | June |
|---|---|---|---|---|---|---|
| Benson and Hedges | | | | | | |
| Percentage increase | 39.9 | 52.0 | 72.9 | 74.9 | 61.3 | 44.3 |
| Percent of industry production | 0.56 | 0.54 | 0.57 | 0.66 | 0.63 | 0.56 |
| Philip Morris | | | | | | |
| Percentage increase | (2.9) | 6.8 | 27.4 | 5.6 | (10.6) | (3.6) |
| Percent of industry production | 11.7 | 9.7 | 9.6 | 11.1 | 9.4 | 9.6 |

(2) The king-size Parliament brand was introduced in selected markets in September, 1953. Production thereof has been as follows: September, 4,164,000; October, 4,420,000; November, 5,617,000.

(3) Source: Annual reports and bulletins of Commissioner of Internal Revenue. Industry figures subsequent to 1951 are preliminary, and with respect to 1953, are available only for 10 months. For such 10 month period the percentage increases over the same period of the preceding year were—Benson and Hedges 40.0%, Philip Morris (3.1%), industry (3.2%); percentages of industry were—Benson and Hedges 0.58% and Philip Morris 9.6%.

( ) Denotes decrease

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## Dividends

**Philip Morris**

On March 20, 1950, the Directors of Philip Morris increased the regular quarterly dividend on the Common Stock from 50¢ to 75¢ per share, and in April, 1951, a 5% stock dividend was paid. On the basis of the number of shares of Common Stock outstanding on October 31, 1953, a quarterly dividend of 75¢ per share would require an annual disbursement of $7,344,363 and, on the assumption that all shares of Common Stock of Benson and Hedges outstanding on that date are exchanged, $8,659,647. The amount of future dividends will depend upon circumstances which cannot now be predicted. Certain limitations on payment of Common Stock dividends are referred to in Note 5 of Notes to Financial Statements of Philip Morris herein. Interest requirements on the Debentures and dividend requirements on the Cumulative Preferred Stock of Philip Morris outstanding October 31, 1953, aggregate $840,000 and $1,211,209 per annum, respectively.

**Benson and Hedges**

Cash dividends of 50¢ per share were paid by Benson and Hedges in 1948 on its then outstanding shares of no par value Common Stock, which were the equivalent of 12½¢ per share after giving effect to the recapitalization described in Note 5 to the foregoing Results of Operations—Benson and Hedges. A 10% stock dividend was paid in December, 1950. Certain limitations on payment of Common Stock dividends, contained in the indenture pursuant to which the Debentures of Benson and Hedges were issued, are referred to under the heading "Description of Common Stock of Benson and Hedges" herein. Annual interest requirements on the Debentures and other funded debt of Benson and Hedges outstanding October 31, 1953, aggregate $128,442. As stated in Note 8 under the heading "Capitalization of Philip Morris and Benson and Hedges", it is contemplated that all such funded debt will be retired following consummation of the exchange.

## Market Prices

The following table, compiled in part from Bank and Quotation Record and in part from the Commercial & Financial Chronicle, shows the high and low sale prices of the Common Stock of Philip Morris on the New York Stock Exchange and of the Common Stock of Benson and Hedges on the American Stock Exchange for the indicated periods.

| | Philip Morris Common Stock | | | Benson and Hedges Common Stock | | |
|---|---|---|---|---|---|---|
| Period | Shares Traded | High | Low | Shares Traded | High | Low |
| 1953 | | | | | | |
| December 1-24 | 103,500 | 46⅜ | 42¼ | 5,350 | 44 | 40 |
| November | 60,200 | 49⅛ | 44⅞ | 4,600 | 47⅝ | 43½ |
| October | 29,600 | 52⅛ | 48⅝ | 5,850 | 51 | 43 |
| Third Quarter | 106,500 | 54¾ | 49½ | 5,200 | 43¼ | 38 |
| Second Quarter | 76,100 | 52⅞ | 49⅝ | 4,200 | 43¾ | 37 |
| First Quarter | 151,400 | 55 | 46½ | 6,750 | 46 | 36¾ |
| 1952 | | | | | | |
| Fourth Quarter | 96,300 | 52 | 45⅛ | 7,300 | 37½ | 27 |
| Third Quarter | 67,000 | 47⅜ | 44 | 8,950 | 31 | 23½ |
| Second Quarter | 63,200 | 49 | 42¾ | 3,250 | 25¼ | 23 |
| First Quarter | 90,000 | 49⅜ | 46¾ | 4,850 | 24⅜ | 20¼ |
| 1951 | | | | | | |
| Fourth Quarter | 92,300 | 49½ | 45⅛ | 8,550 | 28 | 23½ |

The last sale prices of the Philip Morris Common Stock on the New York Stock Exchange and of the Benson and Hedges Common Stock on the American Stock Exchange on December 24, 1953, were 42¼ and 41, respectively. An announcement of a prospective merger of Philip Morris and Benson and Hedges, on a share-for-share basis, was made in October, 1953.

## Business of Benson and Hedges

Benson and Hedges was incorporated on October 10, 1907, under the laws of the State of New York. Substantially all of its stock was owned by Benson & Hedges, Ltd., a British corporation, until 1928, when the British corporation sold its interest. Since 1941, Tobacco and Allied Stocks, Inc., a Delaware corporation, registered under the Investment Company Act of 1940 as a management investment company, has owned a majority of the outstanding stock.

### Products and Distribution

Benson and Hedges is engaged primarily in the business of manufacturing and selling cigarettes. Its principal product is Parliament filter-mouthpiece cigarettes, which have accounted for more than 90% of its dollar net sales since 1950. King-size Parliament cigarettes, first introduced in four cities in September, 1953, have since that time been introduced in a limited number of other cities. Other brands of cigarettes manufactured and sold include Virginia Rounds, Debs, Benson & Hedges Private Blend, and a number of high-grade specialty brands. Several brands of smoking tobacco are also manufactured and sold. In addition, it sells Benson & Hedges La Yerba and Benson & Hedges Clear Havana domestic cigars, and Benson & Hedges Exclusive Import Selection imported cigars, all of which cigars are manufactured for it by others.

Parliament cigarettes were first manufactured and sold by Benson and Hedges in 1931 and were first marketed with a filter-mouthpiece in 1932. Sales of Parliament cigarettes have increased in recent years, while sales of other Benson and Hedges products have diminished both in volume and in relative importance to the total business of Benson and Hedges. The percentage of Benson and Hedges total dollar sales represented by sales of Parliaments increased from approximately 62% in 1947 to approximately 95% in 1952.

Sales of Benson and Hedges products have been almost entirely for consumption within the United States. They are sold mostly to jobbers and chain stores and, to some extent, to selected retail outlets. Parliaments are also sold to the United States armed forces, ships' stores and, to a limited extent, in the export market.

An agreement between Benson and Hedges and the above mentioned British corporation, made at the time the latter sold its interest in Benson and Hedges in 1928, recites the ownership and use by Benson and Hedges within the United States, and by the British corporation within certain other territories, of trade names and trade marks embodying the name "Benson and Hedges", and provides that Benson and Hedges will not "engage, directly or indirectly, in Great Britain or Ireland or in any part of the Continent of Europe or in India or any of the British Colonies, Dominions or Possessions, excepting only The Dominion of Canada and Newfoundland, in the business of manufacturing, selling, or dealing in tobacco, cigars, cigarettes or articles or supplies used or usable by smokers or users of tobacco, or sell any of such products for export into said territory"; the agreement also provides that the British corporation will not engage in such business in the United States and that each company will "respect in every way the trademarks and tradenames of the other" in their respective territories. As an incident to the sale of certain Canadian assets by the British corporation in 1926, the Board of Directors of Benson and Hedges adopted a resolution to the effect that the latter would not engage in business in Canada or Newfoundland. Benson and Hedges is not doing business in the aforesaid territories, and it may be that by virtue of the foregoing it is legally obligated not to do business in such territories.

The promotion and advertising efforts of Benson and Hedges have been devoted primarily to Parliament cigarettes, and expenditures have been increased from year to year in keeping with the growth of the brand. Advertising media used have included primarily newspapers and television and, to a lesser extent, magazines and radio.

**Prices of Parliament**

The prices (before 10% trade and 2% cash discounts) at which Benson and Hedges has sold Parliament (regular-size) since January 1, 1948 are set forth below.

| Period | Price Per Thousand Cigarettes* |
|---|---|
| January 1, 1948 to July 31, 1948 | $11.28 |
| August 1, 1948 to July 31, 1950 | 11.68 |
| August 1, 1950 to October 31, 1951 | 11.90 |
| November 1, 1951 to February 26, 1953 | 12.466 |
| February 27, 1953 to date | 12.90 |

* During substantially all of the period the prices for Philip Morris regular-size have been $3.90 per thousand less than those for Parliament regular-size. The price for king-size Parliament since its introduction in September, 1953, has been $13.60 per thousand and that for Philip Morris king-size has been $9.35 per thousand since February 27, 1953. Prices were controlled by ceiling price regulations of the Office of Price Stabilization from the latter part of January, 1951 to the latter part of February, 1953.

Retail prices of Parliament cigarettes are higher than those of popular-priced cigarettes, and retail prices of king-size Parliament average approximately 2¢ more per package of twenty than those for the regular-size Parliament.

The trend of cigarette taxes and of sales taxes affecting cigarettes levied by various states and municipalities has been upward in recent years. Such taxes vary from one cent to as much as eight cents per package of twenty and may influence the sale of cigarettes since they are usually passed on to the consumer.

**Tobacco**

Benson and Hedges uses both domestic and imported tobacco, with the former comprising the bulk of its requirements. A substantial amount of its domestic tobacco is purchased through Universal Leaf Tobacco Company, a large independent tobacco dealer. Since it is necessary for tobacco to be aged before using, and also because it is good practice to use tobaccos of several crops in the blends, large inventories of leaf tobacco are maintained. These inventories are generally stored during the aging period in tobacco dealers' and independent warehouses.

As is general in the cigarette industry, tobacco is the most important single factor in the determination of costs, except for federal excise taxes. Benson and Hedges, like Philip Morris, determines the book value of its leaf tobacco inventory by an average cost method and, as a result, increases or decreases in prices paid for tobacco currently purchased are reflected only partially in current production costs. Benson and Hedges computes the averages annually, instead of monthly as in the case of Philip Morris; consequently, in interim financial statements it employs estimated annual averages.

Increased production of Parliament, as well as higher tobacco prices, has caused an increase in Benson and Hedges investment in tobacco. At December 31, 1947, tobacco inventories were $1,335,112; at December 31, 1952, they were $8,103,639. Chiefly as a result of such increase, Benson and Hedges in 1952 issued 39,738 shares of Common Stock at the price of $23.50 per share pursuant to an offering to its stockholders, and $3,000,000 principal amount of Fifteen-Year 4½% Sinking Fund Debentures at a net price of 98½% of the principal amount thereof, and on December 31, 1952, had outstanding $2,000,000 of short term notes.

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The availability and price of adequate supplies of tobaccos are subject to changing agricultural and general economic conditions, as well as government crop controls and price supports. Prices paid by Benson and Hedges for such supplies have increased during recent years. Prices paid for flue-cured tobacco of the 1953 crop were substantially higher than for the 1952 crop, and it is anticipated that a similar situation will obtain with respect to burley tobacco.

**Property**

The business offices of Benson and Hedges, located at 600 Fifth Avenue, New York, N. Y., are occupied at a rental of $36,900 per year under leases which extend to April 30, 1961.

Manufacturing operations are conducted in factories in New York City and in Yonkers, N. Y., each owned in fee by a wholly-owned subsidiary. The factory in New York City is a concrete structure approximately 38 years old, having an aggregate floor space of approximately 66,000 square feet, and is subject to a mortgage of $69,770 at October 31, 1953.

The property in Yonkers, which was acquired on June 1, 1953, at an aggregate purchase price of $725,000, covers approximately five acres. The principal manufacturing building is a four-story structure of reinforced concrete, approximately 30 years old, having an aggregate floor space of approximately 96,000 square feet. Two additional buildings, having an aggregate floor space of approximately 40,000 square feet, have been leased to others until September 1, 1954, at an aggregate rental of $40,000. Two smaller buildings, consisting of approximately 20,000 and 7,000 square feet respectively, are used as storage space and garage. The factory is used principally for the manufacture of king-size Parliament cigarettes and contains space for a substantial expansion of production.

During recent years Benson and Hedges has substantially increased its investment in machinery and equipment in order to provide for increased production of Parliaments. Its net investment, after depreciation, in improvements and cigarette machinery and equipment in the New York City factory increased from $257,544 as of December 31, 1947, to $1,205,754, as of October 31, 1953. As of October 31, 1953, Benson and Hedges had invested $776,154 in improvements and cigarette machinery and equipment for its Yonkers factory. Outstanding commitments for additional machinery and equipment totalled approximately $750,000 on October 31, 1953.

**Employees**

Benson and Hedges has approximately 650 employees. The number has increased substantially during recent years, primarily because of increased production of Parliament cigarettes. They are not organized at the present time.

Several plans for the benefit of employees are in effect. Under the "Employees' Profit Sharing —Stock Bonus and Retirement Plan" (initially effective for the year 1951), Benson and Hedges each year contributes a number of full shares of its unissued Common Stock the aggregate market value of which most nearly equals 2% of its net earnings before federal income and excess profits taxes for such year, but not more than 15% of the aggregate compensation of all employees participating in the plan for such year. Each employee is allocated an interest in the annual contribution in accordance with a formula reflecting his rate of compensation and length of service, and his total accumulated interest is distributed following his death or disability, his retirement at or after age 65, or, subject to certain conditions, the termination of his employment. All regular employees, including officers (except Mr. Joseph F. Cullman, Jr., President), participate in this plan on the same basis. The plan may be discontinued by Benson and Hedges at any time. The total contribution of Benson and Hedges to the plan for the years 1951 and 1952 was 3,116 shares of its Common Stock, of which 190 shares have been allocated to the accounts of officers, and 2,926 shares to the accounts of other employees. Benson and Hedges also provides a bonus plan for sales personnel, sick benefits and, on a contributory basis, hospitalization and medical-surgical insurance.

With Benson and Hedges as a subsidiary, it may be advisable to change these plans and benefits, and it is possible that plans and benefits similar to those in effect for Philip Morris employees would be substituted, with modifications. The additional annual cost is tentatively estimated, on the basis of 1953 operations, at approximately $175,000.

Under the "Employees' Restricted Stock Option Plan", the Board of Directors is authorized to grant employees options to purchase not to exceed an aggregate of 5,000 shares of Benson

and Hedges Common Stock, at an option price not lower than 95% of the fair market value of the stock on the date the option is granted. The term of the options is five years, subject to earlier termination on certain conditions. Options were granted in February, 1952, to purchase 3,468 shares for $20.50 per share, and in March, 1953, to purchase 298 shares for $40 per share. As of October 31, 1953, options with respect to 3,394 shares (including options with respect to 740 shares held by officers) were outstanding. The Board of Directors of Benson and Hedges has resolved that no additional options be granted prior to the expiration of the exchange offer.

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Reference is also made to the headings "Recommendation of the Board of Directors" and "Sales and Production" for certain additional information concerning the business of Benson and Hedges.

**Description of Common Stock of Benson and Hedges**

Benson and Hedges has only one class of stock authorized or outstanding, its Common Stock, of the par value of $4 per share.

**Dividend Rights:** Each share of the Common Stock participates equally in such dividends as may be declared by the Board of Directors of Benson and Hedges out of funds legally available for the payment thereof. The Indenture, pursuant to which its Fifteen Year 4½% Sinking Fund Debentures due October 1, 1967 were issued, provides that Benson and Hedges will not (a) declare any dividends (other than dividends payable in shares of its capital stock) on or make any distributions in respect of any shares of its Common Stock or (b) purchase, redeem or acquire for value, or permit any Subsidiary to purchase or acquire for value, any shares of capital stock of Benson and Hedges, except to the extent that the sum of (i) Consolidated Net Income accrued subsequent to December 31, 1951 plus (ii) the aggregate net proceeds received by Benson and Hedges from the issuance, exchange or sale subsequent to December 31, 1952 of shares of its capital stock plus (iii) the aggregate market value at which Benson and Hedges has issued shares of its Common Stock pursuant to its "Employees' Profit Sharing—Stock Bonus and Retirement Plan", exceeds the sum of (iv) all dividends (other than dividends payable in shares of its capital stock) declared and distributions made by Benson and Hedges subsequent to December 31, 1951 on shares of its capital stock plus (v) the cost to Benson and Hedges and any such Subsidiary of any shares of capital stock of Benson and Hedges so purchased, redeemed or acquired for value. [For the amount of earned surplus at October 31, 1953, free of such restrictions, see Note 6 to Notes Accompanying Consolidated Financial Statements of Benson and Hedges herein. Reference is also made to Note 8 under "Capitalization of Philip Morris and Benson and Hedges".]

**Voting Rights:** Each stockholder is entitled to one vote for each share of Common Stock held of record.

**Liquidation Rights:** In the event of any liquidation of Benson and Hedges, the holders of the outstanding Common Stock will participate ratably per share in any assets legally available for distribution to the holders of such stock.

There are no preemptive rights, conversion rights, redemption provisions, or sinking fund provisions with respect to such Common Stock, there is no liability to further call or assessment, except as provided by law, and there are no restrictions on the repurchase or redemption of shares by Benson and Hedges, except as provided by law, and except as described above under "Dividend Rights".

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**Directors, Officers and Principal Stockholders**

Some time ago Mr. A. E. Lyon determined to retire as chief executive officer of Philip Morris on December 31, 1953, but consented nevertheless to serve as management consultant during a small part of each of the next three years. He has now been persuaded to enter into a new agree-

ment by which, in consideration of a greater compensation, he will assume additional responsibilities, and may be a member of the Executive Committee. Thus, although so retiring as chief executive officer, he will devote a substantial portion of the next three years, as desired, to the work of management consultant, and will continue during the mutual pleasure of the Board and himself to act as its Chairman. Mr. O. Parker McComas will become chief executive officer on January 1, 1954 and will be a member of the Executive Committee.

With Benson and Hedges as a subsidiary of Philip Morris, it is contemplated that Mr. Joseph F. Cullman, Jr., and Mr. Joseph F. Cullman, 3rd, will become members of the Philip Morris Board of Directors, which will be increased from ten to twelve by amendment of the by laws. During the last five years, Mr. Joseph F. Cullman, Jr., has been Chairman and President of Benson and Hedges, President of Tobacco and Allied Stocks, Inc., and President of Cullman Bros., Inc., tobacco merchants, and Mr. Joseph F. Cullman, 3rd, has been a Vice-President and, since April, 1950, Executive Vice-President of Benson and Hedges. It is further contemplated that, besides continuing as officers and directors of Benson and Hedges, Mr. Joseph F. Cullman, Jr., will become Chairman of the Executive Committee, and Mr. Joseph F. Cullman, 3rd, a Vice-President, of Philip Morris, at annual salaries from it and Benson and Hedges in the aggregate amounts of $60,000 and $35,000, respectively. Their current salaries from Benson and Hedges are $40,000 and $35,000, respectively.

None of the directors or officers of Philip Morris is a stockholder of Benson and Hedges or Tobacco and Allied Stocks, Inc. As of November 30, 1953, their beneficial stock ownership, direct or indirect, in Philip Morris was approximately as follows:

| Name and Office | Cum. Pfd. Stock 4% Series(a) (shares) | Common Stock (shares) |
|---|---|---|
| C. T. Ames, Jr., Director and Vice-President | -- | 1,000 |
| H. R. Blum, Controller | - | 400 |
| G. P. Brauburger, Director(b) | 376 | 3,675 |
| O. H. Chalkley, Director | 69 | 4,250 |
| H. W. Chesley, Jr., Vice-President | -- | -- |
| Cornelia Craig, Assistant Secretary | -- | 130 |
| J. A. Hampson, Assistant Secretary | — | — |
| L. G. Hanson, Director, Senior Vice-President and Treasurer | 153 | 1,400 |
| W. H. Hatcher, Director and Vice-President | — | 2,800 |
| G. J. Henn, Vice-President | — | 919 |
| Ray Jones, Vice-President | 120 | 1,931 |
| C. H. Kimble, Secretary and Assistant Treasurer | — | — |
| W. E. Liebetrau, Vice-President | — | 2,887 |
| A. E. Lyon, Director and Chairman of the Board of Directors | — | 3,010 |
| O. Parker McComas, Director and President | — | 2,500 |
| H. E. Riddell, Director | — | 105 |
| K. H. Rockey, Director | — | 368 |
| W. B. Ryan, Jr., Director | — | 1,500 |
| George Weissman, Vice-President | — | 105 |

(a) None of the persons listed owned Cumulative Preferred Stock, 3.90% Series, of Philip Morris.

(b) G. P. Brauburger is a partner of Conboy, Hewitt, O'Brien & Boardman, counsel to Philip Morris, who are passing upon legal matters for it in connection with the proposed acquisition.

The amount of stock of Benson and Hedges and Tobacco and Allied Stocks, Inc., owned beneficially, directly or indirectly, as of November 30, 1953, by the directors and officers of those companies, together with the amount of Philip Morris stock which they owned, was approximately as follows:

| Name and Office | Benson and Hedges Common Stock (shares) | Tobacco and Allied Stocks, Inc. Capital Stock (shares) | Philip Morris Common Stock(a) (shares) |
|---|---|---|---|
| SIDNEY BACH, Director and Vice President, Benson and Hedges | 363(b) | — | — |
| ARTHUR J. COHEN, Director, Benson and Hedges(c) | 3,388 | 1,200 | 675(e) |
| JOHN A. COLEMAN, Director, Tobacco and Allied Stocks, Inc. | — | — | — |
| JOHN E. COOKMAN, Vice President, Benson and Hedges | 50(b) (e) | — | — |
| JOSEPH F. CULLMAN, JR., Director, President and Chairman, Benson and Hedges; Director and President, Tobacco and Allied Stocks, Inc. | 920(d) | 3,320(d) | (d) |
| JOSEPH F. CULLMAN, 3RD, Director and Executive Vice President, Benson and Hedges; Director, Tobacco and Allied Stocks, Inc. | 4,730(b) (d) | 800(d) | (d) |
| HOWARD S. CULLMAN, Director, Vice President and Secretary, Tobacco and Allied Stocks, Inc. | 3,534(d) | 3,940(d) | (d) |
| EDGAR M. CULLMAN, Director, Tobacco and Allied Stocks, Inc. | 2,600(d) | 400(d) | (d) |
| W. ARTHUR CULLMAN, Director, Tobacco and Allied Stocks, Inc. | 1,360(d) | 600(d) | 5(d) |
| J. TAYLOR FOSTER, Director, Tobacco and Allied Stocks, Inc. | — | — | — |
| ARTHUR J. O'CONNOR, Director, Benson and Hedges | 46,150 | 4,530 | — |
| BAYARD F. POPE, Director, Benson and Hedges | — | — | — |
| JOHN A. REGAN, Assistant Secretary, Tobacco and Allied Stocks, Inc. | — | — | — |
| JUNIUS A. RICHARDS, Director, Tobacco and Allied Stocks, Inc. | — | 30(e) | — |
| GODFREY S. ROCKEFELLER, Director, Benson and Hedges and Tobacco and Allied Stocks, Inc. | (e) | 4,000(e) | (e) |
| GEORGE C. SCHIEFFERMANN, Director, Benson and Hedges; Director and Treasurer, Tobacco and Allied Stocks, Inc. | — | — | — |
| MARY E. SULLIVAN, Assistant Secretary, Benson and Hedges | (b) (e) | — | — |
| PAULINE WAGNER, Director, Vice President, Treasurer and Secretary, Benson and Hedges | 2,200(b) | — | — |
| JOHN F. WHARTON, Director, Benson and Hedges and Tobacco and Allied Stocks, Inc.(c) | — | 336(e) | — |

(a) None of the persons listed owned Cumulative Preferred Stock of Philip Morris.

(b) Under the "Employees' Restricted Stock Option Plan" of Benson and Hedges, options to purchase 740 shares of its Common Stock at $20.50 per share, were held by Sidney Bach (240), John E. Cookman (200), Mary E. Sullivan (50), and Pauline Wagner (250), and under the "Employees' Profit Sharing—Stock Bonus and Retirement Plan", an aggregate of approximately 207 shares of such stock was allocated by the trustee thereunder to their accounts, to the account of an associate of one of them, and to the account of Joseph F. Cullman, 3rd.

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(c) Arthur J. Cohen and John F. Wharton are respectively counsel to and a partner of Paul, Weiss, Rifkind, Wharton & Garrison, counsel to Benson and Hedges and Tobacco and Allied Stocks, Inc., who are passing upon legal matters for them in connection with the proposed acquisition.

(d) Associates and members of the families of Joseph F. Cullman, Jr., Joseph F. Cullman, 3rd, Howard S. Cullman, Edgar M. Cullman or W. Arthur Cullman owned in the aggregate approximately 257,000 shares of Common Stock of Benson and Hedges (of which number Tobacco and Allied Stocks, Inc., one of such associates, owned 242,759 shares, or approximately 55% of the class); approximately 117,000 shares of capital stock of Tobacco and Allied Stocks, Inc. (of which number Cullman Bros., Inc., another of such associates, owned 105,216 shares, or approximately 44% of the class); and approximately 11,000 shares of

Common Stock of Philip Morris (of which number Tobacco and Allied Stocks, Inc., owned 8,800 shares). Substantially all of the outstanding stock of Cullman Bros., Inc., is owned by Joseph F. Cullman, Jr., and Howard S. Cullman, and certain members of their families, including the other individuals named in this note. Within the past two years, Tobacco and Allied Stocks, Inc., purchased 22,217 shares of Common Stock of Benson and Hedges, at the price of $23.50 per share, pursuant to an offering made by Benson and Hedges to its stockholders, and individuals named in this note, and their associates or members of their families, purchased approximately 2,550 shares of such Common Stock, mostly pursuant to such offering, at prices ranging from $23.50 to $37.25 per share.

(e) Associates of the following owned shares as indicated: Arthur J. Cohen, 1,190 shares of Common Stock of Philip Morris; John E. Cookman, 50 shares of Common Stock of Benson and Hedges; Junius A. Richards, 10 shares of capital stock of Tobacco and Allied Stocks, Inc.; Godfrey S. Rockefeller, 3,034 shares of Common Stock of Benson and Hedges, 130 shares of capital stock of Tobacco and Allied Stocks, Inc., and 84 shares of Common Stock of Philip Morris; Mary E. Sullivan, 20 shares of Common Stock of Benson and Hedges; and John F. Wharton, 600 shares of capital stock of Tobacco and Allied Stocks, Inc.

On the basis of the foregoing, Tobacco and Allied Stocks, Inc., will own approximately 9%, and Messrs. Joseph F. Cullman, Jr., and Joseph F. Cullman, 3rd, and their families approximately 1%, of the Company's Common Stock upon consummation of the exchange offer. The holdings of Tobacco and Allied Stocks, Inc., thus will constitute the largest single voting interest in the Company and will be represented on its Board by two new directors. Tobacco and Allied Stocks, Inc., has stated that it does not intend to suggest changes in the business policies and management of the Company and would not wish, in any event, to urge any change of consequence except after considerable participation in the Company's affairs. It is understood that it is the intention of Tobacco and Allied Stocks, Inc., that, for a period of three years, it will not vote for any major change in business policies or management of Philip Morris without the concurrence of the majority of the latter's Board of Directors. This understanding is not to prevent a distribution, by sale or otherwise, of the holdings of Tobacco and Allied Stocks, Inc., in Philip Morris, if it should desire to make one.

## Proposed Accounting Treatment of Acquisition

The shares of Benson and Hedges will be recorded on the books of Philip Morris, as an investment, at the estimated aggregate fair market value at the offering date of the Philip Morris Common Stock issued therefor. The par value of shares of Philip Morris Common Stock so issued ($5 per share) will be credited to the Common Stock account and the excess of fair market value over par will be credited to the paid-in surplus account.

Had the proposed acquisition of Benson and Hedges shares been consummated as of October 31, 1953, then, on such date, the investment in Benson and Hedges would have been recorded at the then estimated fair market value of shares of Philip Morris Common Stock issued, approximately $21,000,000, assuming 100% exchange of the outstanding stock of Benson and Hedges. The Common Stock account of Philip Morris would have increased by $2,192,140 to $14,432,745, and the paid-in surplus account would have increased $18,807,860 to $52,113,708, as a result of the issuance of 438,428 shares of Philip Morris Common Stock.

The investment in shares of Benson and Hedges, as recorded on the books of Philip Morris upon consummation of the exchange offer, will exceed substantially the consolidated net tangible assets of Benson and Hedges and subsidiary companies. Upon consolidation of the financial statements of Benson and Hedges with those of Philip Morris, after consummation of the exchange offer, such excess will be reflected as an intangible asset in the consolidated balance sheet of the companies. The management of Philip Morris has no present plans for the amortization of such excess. Had the exchange offer been consummated at October 31, 1953, and assuming 100% acceptance by Benson and Hedges stockholders, the fair market value of 438,428 shares of Philip Morris required to be issued would exceed by approximately $14,000,000 the consolidated net tangible assets of Benson and Hedges and subsidiary companies at that date.

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## Other Matters

The management knows of no business which will be presented to the meeting other than to vote on the proposal to acquire Common Stock of Benson and Hedges as above described. If other matters properly come before the meeting, the persons named as proxies will vote on them in accordance with their best judgment.

The cost of this solicitation of proxies will be borne by the Company. In addition to the use of the mails, some of the officials and regular employees of the Company may solicit proxies in person and by telephone and telegraph, and will solicit brokers and other persons holding in their names or those of their nominees shares beneficially owned by others to procure from their respective principals owning said shares their consents to the execution of proxies in the form transmitted herewith. The Company will reimburse such brokers and other persons for their expenses incurred in sending proxy forms and other material to their principals and will pay compensation therefor at such rate as is prescribed by the rules and regulations of the New York Stock Exchange for such services. It is contemplated that additional solicitation of proxies will be made by the same methods under the special engagement and direction of Dudley F. King, 70 Pine Street, New York, N. Y., by approximately 50 of his assistants, at an anticipated cost to the Company of $15,000.

The information herein concerning the business and affairs of Benson and Hedges and Tobacco and Allied Stocks, Inc., and the interests of their directors and officers and the associates thereof, has been furnished by those companies except as the context otherwise indicates.

Dated, December 30, 1953.

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Share Owners of
Philip Morris & Co. Ltd., Incorporated:

We have examined the financial statements of Philip Morris & Co. Ltd., Incorporated, as listed in the Index to Financial Statements, and the summary statement of operations appearing under the caption "Results of Operations" herein. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements listed in the Index to Financial Statements present fairly the financial position of Philip Morris & Co. Ltd., Incorporated at October 31, 1953 and the results of its operations for the fiscal years ended March 31, 1951, 1952 and 1953 and for the seven months ended October 31, 1953, and the summary statement of operations appearing under the caption "Results of Operations" summarizes fairly the results of its operations for the fiscal years ended March 31, 1949 through March 31, 1953 and for the seven months ended October 31, 1953, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, December 7, 1953.

1002332347

## PHILIP MORRIS & CO. LTD., INCORPORATED

### Balance Sheet, October 31, 1953

### ASSETS:

| | | | |
|---|---|---|---|
| Demand deposits in banks and cash on hand | | | $ 10,708,854 |
| Accounts receivable from customers | | $ 13,018,722 | |
| Less: | | | |
| Allowance for discounts | $ 232,701 | | |
| Allowance for doubtful accounts | 550,000 | 782,701 | 12,236,021 |
| Accounts receivable from others | | | 425,025 |
| Inventories at average cost (Note 1): | | | |
| Leaf tobacco (including imported leaf in bond subject to duty) | | $176,184,375 | |
| Stock in process | | 1,933,766 | |
| Manufactured stock | | 14,484,930 | |
| Revenue stamps | | 1,241,492 | |
| Operating supplies | | 3,398,782 | 197,243,345 |
| Total current assets | | | $220,613,245 |
| Property, plant and equipment, at cost (Note 2): | | | |
| Land | | $ 717,057 | |
| Land improvements | $ 187,853 | | |
| Buildings and building equipment | 10,883,653 | | |
| Machinery and equipment | 14,735,173 | | |
| Office furniture and fixtures | 351,676 | | |
| Automobiles and trucks | 1,247,313 | | |
| | $27,405,668 | | |
| Less, Allowance for depreciation (Note 2) | 7,304,695 | | |
| | $20,100,973 | | |
| Construction and machinery installations in progress | 922,935 | 21,023,908 | 21,740,965 |
| Investments in and advances to subsidiary companies, at cost | | | 511,838 |
| Prepaid expenses and deferred charges | | | 1,685,784 |
| | | | $244,551,832 |

The accompanying notes are an integral part of the financial statements.

1002332348

# PHILIP MORRIS & CO. LTD., INCORPORATED

Balance Sheet, October 31, 1953

## LIABILITIES:

| | | |
|---|---|---|
| Notes payable to banks | | $ 62,000,000 |
| Cash dividends payable | | 302,804 |
| **Accounts payable:** | | |
| Trade creditors | $ 4,732,886 | |
| Others | 930,313 | 5,663,199 |
| **Accrued liabilities:** | | |
| Taxes (other than federal taxes on income) | $ 1,081,750 | |
| Storage | 361,190 | |
| Incentive bonus | 396,652 | |
| Advertising, coupon redemptions, etc. | 253,277 | |
| Salaries and wages | 221,008 | |
| Interest on debentures | 70,000 | |
| Other | 201,972 | 2,585,849 |
| Provision for federal taxes on income | | 12,015,555 |
| Total current liabilities | | $ 82,567,407 |
| 2¾% Sinking Fund Debentures, maturing April 1, 1966 (Note 3) | | 32,000,000 |

## CAPITAL:

| | | |
|---|---|---|
| Share owners' investment, represented by (Notes 4 and 5): | | |
| Cumulative preferred stock, par value $100 per share: | | |
| 4% Series | $ 18,385,500 | |
| 3.90% Series | 12,668,900 | |
| Common stock, par value $5 per share | 12,240,605 | |
| Paid in by share owners (in excess of par value of capital stocks, less financing expenses), as annexed | 33,305,848 | |
| Earnings reinvested or retained in the business (Note 5), as annexed | 53,822,179 | |
| | $130,423,032 | |
| Less, Cost of preferred stock held in treasury (Note 4) | 438,607 | 129,984,425 |
| | | $244,551,832 |

The accompanying notes are an integral part of the financial statements.

PHILIP MORRIS & CO. LTD., INCORPORATED

Statement of Earnings

for the fiscal years ended March 31, 1951, 1952 and 1953
and for the seven months ended October 31, 1953

| | Fiscal Years Ended March 31 | | | Seven Months Ended Oct. 31, 1953 |
|---|---|---|---|---|
| | 1951 | 1952 | 1953 | |
| Net sales | $305,804,331 | $306,698,324 | $314,894,718 | $180,486,468 |
| Cost of goods sold (Note 1) | 245,937,345 | 248,977,304 | 259,732,580 | 144,010,719 |
| Gross profit | 59,866,986 | 57,721,020 | 55,162,138 | 36,475,749 |
| Shipping, selling, advertising, general and administrative expenses | 22,496,784 | 25,319,811 | 29,989,456 | 16,520,535 |
| | 37,370,202 | 32,401,209 | 25,172,682 | 19,955,214 |
| Other income | 92,144 | 141,506 | 237,240 | 117,202 |
| | 37,462,346 | 32,542,715 | 25,409,922 | 20,072,416 |
| Other deductions: | | | | |
| Interest on debentures | 840,000 | 840,000 | 840,000 | 490,000 |
| Other interest charges | 1,107,878 | 2,033,634 | 2,225,823 | 1,024,568 |
| Prior service contribution under company's retirement plan (Note 6) | 115,899 | 115,899 | 115,899 | 84,059 |
| Provision under incentive bonus plan (Note 7) | 311,424 | 570,044 | | 363,356 |
| Cancellation of export contract | | 635,998 | | |
| | 2,375,201 | 4,195,575 | 3,181,722 | 1,961,983 |
| | 35,087,145 | 28,347,140 | 22,228,200 | 18,110,433 |
| Provision for taxes on income: | | | | |
| Federal income tax | 15,064,000 | 14,605,000 | 11,280,000 | 9,220,000 |
| Federal excess profits tax | 2,686,000 | 700,000 | 700,000* | 380,000 |
| State income taxes | 648,000 | 415,000 | 303,000 | 306,000 |
| | 18,398,000 | 15,720,000 | 10,883,000 | 9,906,000 |
| Net earnings | $ 16,689,145 | $ 12,627,140 | $ 11,345,200 | $ 8,204,433 |

*Indicates credit for refund of 1952 tax.

For additional information relative to the distribution of certain expenses, see the accompanying schedule of supplementary profit and loss information.

The accompanying notes are an integral part of the financial statements.

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# PHILIP MORRIS & CO. LTD., INCORPORATED

## Statements of Surplus

for the fiscal years ended March 31, 1951, 1952 and 1953
and for the seven months ended October 31, 1953

| | Fiscal Years Ended March 31 | | | Seven Months Ended October 31, 1953 |
|---|---|---|---|---|
| | 1951 | 1952 | 1953 | |
| **Paid in by share owners (in excess of par value of capital stocks, less financing expenses):** | | | | |
| Balance at beginning of period | $14,288,392 | $33,304,643 | $33,300,209 | $33,300,490 |
| Excess of proceeds over par value on sales of 333,077 shares of common stock and 130,610 shares of cumulative preferred stock, 3.90% series, less financing expenses | 13,766,521 | | | |
| Excess of approximate market value over par value of common stock issued as a stock dividend | 5,245,965 | | | |
| Adjustments due to redemption of preferred stock | 3,765 | 4,434* | 281 | 5,358 |
| Balance at end of period | $33,304,643 | $33,300,209 | $33,300,490 | $33,305,848 |
| **Earnings reinvested or retained in the business:** | | | | |
| Balance at beginning of period | $40,471,181 | $43,083,797 | $47,125,313 | $49,896,484 |
| Net earnings for period per accompanying statement | 16,689,145 | 12,627,140 | 11,345,200 | 8,204,433 |
| | 57,160,326 | 55,710,937 | 58,470,513 | 58,100,917 |
| Deduct, Dividends declared: | | | | |
| On cumulative preferred stock, in cash: | | | | |
| 4% series | 750,710 | 745,116 | 738,616 | 364,443 |
| 3.90% series | 502,337 | 499,195 | 492,951 | 242,136 |
| On common stock: | | | | |
| In cash, $3.00 per share in each year and $1.50 per share in the seven months ended October 31, 1953 | 6,994,632 | 7,341,313 | 7,342,462 | 3,672,159 |
| In common stock, 116,577 shares (5% on outstanding shares) | 5,828,850 | | | |
| | 14,076,529 | 8,585,624 | 8,574,029 | 4,278,738 |
| Balance at end of period (Note 5) | $43,083,797 | $47,125,313 | $49,896,484 | $53,822,179 |

* Indicates deduction.

The accompanying notes are an integral part of the financial statements.

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# PHILIP MORRIS & CO. LTD., INCORPORATED

## Notes to Financial Statements

1. The inventories used in the computation of cost of goods sold are stated at average costs, except that revenue stamp inventories are priced at cost of specific items.

The amounts of inventories were as follows:

| | |
|---|---|
| March 31, 1950 | $159,610,846 |
| March 31, 1951 | 220,839,057 |
| March 31, 1952 | 221,453,395 |
| March 31, 1953 | 193,747,160 |
| October 31, 1953 | 197,243,345 |

It is a generally recognized trade practice to classify the total amount of leaf tobacco inventory as a current asset although part of such inventory, because of the duration of the aging process, ordinarily would not be realized within one year. It is impracticable to estimate the amount of leaf inventories not realizable within one year.

2. The company follows the policy of providing for depreciation on the straight-line method by charges to costs or expenses at rates based on the estimated useful lives of the respective properties applied to the gross book amounts thereof, except that, for items of used properties purchased from another company in the tobacco industry, the charges are based on estimated remaining life of each unit of property as determined by an independent appraisal company.

The rates used for computing depreciation on the properties, other than the used properties acquired as aforesaid, are as follows:

| Class of Property | Rates per Annum |
|---|---|
| Land improvements | 4% |
| Buildings—other than warehouses | 2% |
| Warehouses | 4% |
| Building equipment | 5 and $6\frac{2}{3}$% |
| Machinery and equipment | $6\frac{2}{3}$% |
| Office furniture and fixtures | $6\frac{2}{3}$% |
| Automobiles and trucks | 25% |

Maintenance, repairs and renewals are charged to income as incurred except that expenditures which increase the useful lives of the buildings, machinery and equipment are capitalized.

As a general rule, when items are retired or otherwise disposed of, the reserves for depreciation are charged with the accumulated amount of depreciation applicable thereto and any profit or loss on such retirement or disposal is credited or charged to income.

3. Beginning March 31, 1956 and on March 31 of each year until maturity, a sinking fund payment is required to redeem on April 1, $1,600,000 of $2\frac{5}{8}$% debentures at their principal amount and accrued interest.

4. Information concerning capital shares:

Authorized:

Preferred, 317,156 shares (including 6,612 redeemed shares which may not be reissued)
Common, 3,000,000 shares

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| | |
|---|---|
| Outstanding (including treasury stock): | |
| Preferred: | |
| 4% Series | 183,855 |
| 3.90% Series | 126,689 |
| Common | 2,448,121 |
| In treasury (preferred): | |
| 4% Series | 2,021 |
| 3.90% Series | 2,619 |

## PHILIP MORRIS & CO. LTD., INCORPORATED

### Notes to Financial Statements, Continued

The company is required to set aside annually, in sinking funds, amounts sufficient to redeem 1,999 shares of preferred stock, 4% Series, at $105.50 per share and 1,307 shares of 3.90% Series at $100.75. Shares held in treasury at October 31, 1953 are sufficient for sinking fund requirements to be fulfilled within 80 days after the close of the fiscal year ending March 31, 1954.

The preferred stock is redeemable at any time, otherwise than through the sinking funds, at $106.50 per share for 4% Series to February 1, 1955 and $103.75 per share for 3.90% Series to May 1, 1954, and at diminishing amounts thereafter, but not less than $105.50 for 4% Series and $100.75 for 3.90% Series; plus accrued dividends. Preferred stockholders are entitled to such amounts upon voluntary liquidation of the company or to $100.00 per share, plus accrued dividends, upon involuntary liquidation.

5. The terms of issue of the 2⅝% Sinking Fund Debentures include certain restrictions with respect to dividends (other than stock dividends) on the common stock of the company, and to the purchase, redemption or retirement of its capital shares. At October 31, 1953, approximately $36,535,000 of the earnings retained was free of such restrictions. Under similar restrictions in the terms of issue of the cumulative preferred stock, the amount of earnings retained free of such restrictions was in excess of the aforementioned $36,535,000.

6. The company's retirement plan (noncontributory) covers all full time and seasonal employees. The plan presently provides that after ten years of service, employees may retire at the age of 65, or under certain circumstances, at a reduced retirement allowance at the age of 55. Retirement allowances for service prior to January 1, 1951 are computed on the employee's rate of annual compensation at January 1, 1951 in an amount equal to ¾ths of 1% of the first $3,000, plus 1½% of the balance, multiplied by the number of years of service to January 1, 1951. Retirement allowances for service after January 1, 1951 are computed in an amount equal to 1% of the first $3,600, plus 1½% of the balance, of each year's annual compensation, including bonus, except that the amount of bonus for this purpose shall not exceed $25,000. The plan is subject to discontinuance at any time.

   Prior service benefits as established under the plan as of April 1, 1943 were completely funded at March 31, 1953. As a result of amendments to the plan, approved by stockholders in July, 1953, additional unpaid prior service benefit costs of $1,248,000 were created as of April 1, 1953. It is the present intention of management to fund such costs, together with interest, over a ten-year period, although it is not required to do so.

   During the seven months ended October 31, 1953 the company's contributions to the plan were $387,671 for current services and $84,059 for prior services.

7. The general basis of the provision under the present incentive bonus plan, initially effective for the fiscal year ended March 31, 1952, is 2 per cent of the unconsolidated earnings of the company before deduction of the bonus provision and federal taxes on income. However, if such computation results in net earnings of less than $25,000,000 before deduction of federal taxes on income in any year, no provision for bonus shall be made in such year.

8. The company had commitments at October 31, 1953 of approximately $1,867,000 for purchases of machinery and equipment.

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# PHILIP MORRIS & CO. LTD., INCORPORATED

## Supplementary Profit and Loss Information
## for the fiscal years ended March 31, 1951, 1952 and 1953
## and for the seven months ended October 31, 1953

| Item | Charged to Profit and Loss (Note A) To Costs | Charged to Profit and Loss (Note A) Other | Total |
|---|---|---|---|
| **Maintenance and repairs:** | | | |
| Fiscal years ended March 31: | | | |
| 1951 | $ 651,847 | $ 10,030 | $ 661,877 |
| 1952 | 790,251 | 8,310 | 798,561 |
| 1953 | 759,096 | 32,909 | 792,005 |
| Seven months ended October 31, 1953 | 399,508 | 3,876 | 403,381 |
| **Depreciation and amortization of fixed assets:** | | | |
| Fiscal years ended March 31: | | | |
| 1951 | 688,182 | 221,199 | 909,381 |
| 1952 | 765,023 | 188,937 | 953,960 |
| 1953 | 1,406,920 | 240,069 | 1,646,989 |
| Seven months ended October 31, 1953 | 817,256 | 167,914 | 985,170 |
| **Taxes, other than income and excess profits taxes (Note B):** | | | |
| Fiscal years ended March 31: | | | |
| 1951 | 150,908,455 | 424,719 | 151,333,174 |
| 1952 | 150,580,630 | 348,680 | 150,929,310 |
| 1953 | 158,318,677 | 396,420 | 158,715,097 |
| Seven months ended October 31, 1953 | 84,662,189 | 256,865 | 84,919,054 |
| **Management and service contract fees** | None for entire period | | |
| **Rents and royalties:** | | | |
| Fiscal years ended March 31: | | | |
| 1951 | 166,672 | 263,555 | 430,227 |
| 1952 | 184,098 | 293,130 | 477,228 |
| 1953 | 162,076 | 352,396 | 514,472 |
| Seven months ended October 31, 1953 | 131,164 | 203,452 | 334,616 |

NOTES:

(A) None of the items named was charged to accounts other than profit and loss accounts.

(B) Summarized as follows:

| | Fiscal Years Ended March 31 1951 | 1952 | 1953 | Seven Months Ended October 31, 1953 |
|---|---|---|---|---|
| Federal revenue stamps affixed to products manufactured (Note C) | $150,237,985 | $149,852,743 | $157,644,051 | $ 84,275,718 |
| Virginia and Kentucky property taxes | 414,514 | 442,941 | 436,178 | 241,978 |
| Social security taxes | 313,766 | 344,301 | 344,093 | 203,721 |
| Other taxes | 366,909 | 289,325 | 290,775 | 197,637 |
| | $151,333,174 | $150,929,310 | $158,715,097 | $ 84,919,054 |

1002332354

(C) Federal revenue stamps affixed to products sold and included in sales and cost of sales as reported on the accompanying statement ... $147,312,301 | $148,812,213 | $157,266,405 | $ 84,959,249

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Share Owners of
Benson and Hedges

We have examined the consolidated financial statements of Benson and Hedges, and subsidiary companies as listed in the Index to Financial Statements, and the summary statement of operations appearing under the caption "Results of Operations" herein. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements listed in the Index to Financial Statements present fairly the financial position of Benson and Hedges and subsidiary companies at October 31, 1953 and the results of their operations for the fiscal years ended December 31, 1950, 1951 and 1952 and for the ten months ended October 31, 1953, and the summary statement of operations appearing under the caption "Results of Operations" summarizes fairly the results of their operations for the years ended December 31, 1948 through December 31, 1952, the ten months ended October 31, 1953, the three months ended March 31, 1953, and the seven months ended October 31, 1953, in conformity with generally accepted accounting principles applied on a consistent basis.

COLLINS & COMPANY

New York, December 7, 1953

# BENSON AND HEDGES AND SUBSIDIARY COMPANIES

## Consolidated Balance Sheet

### October 31, 1953

### ASSETS

| | | |
|---|---|---|
| Cash on hand and in bank | | $ 2,000,284 |
| Accounts receivable, trade | $ 1,463,191 | |
| Less: Reserve for doubtful accounts | 16,398 | 1,446,793 |
| Inventories (Note 2): | | |
| Leaf tobacco (including imported leaf in bond, subject to duty) | $ 8,151,319 | |
| Manufactured stock and stock in process | 585,692 | |
| Supplies | 539,479 | |
| Revenue stamps | 90,935 | 9,367,425 |
| Total current assets | | $12,814,502 |
| Fixed assets (depreciated value) (Note 3): | | |
| Land | $ 191,010 | |
| Buildings and improvements | 891,627 | |
| Machinery and equipment | 1,749,177 | |
| Furniture and fixtures | 48,717 | 2,880,531 |
| Goodwill, leaseholds, etc. | | 1 |
| Prepaid expenses | | 227,488 |
| Total assets | | $15,922,522 |

The accompanying notes are an integral part of the financial statements.

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## BENSON AND HEDGES AND SUBSIDIARY COMPANIES

### Consolidated Balance Sheet

October 31, 1953

### LIABILITIES

| | | |
|---|---|---|
| Notes payable to banks | | $ 2,150,000 |
| Notes payable, trade | | 100,000 |
| Mortgage amortization, due within one year | | 1,820 |
| Debenture sinking fund, due within one year | | 200,000 |
| Accounts payable | | 1,172,534 |
| Accrued expenses: | | |
| Taxes other than federal income | $ 84,072 | |
| Advertising | 27,028 | |
| Salaries and wages | 74,785 | |
| Interest on debentures | 10,500 | |
| Other | 41,664 | 238,049 |
| Provision for federal income and excess profits taxes | | 2,323,087 |
| Total current liabilities | | $ 6,185,490 |
| 3½% First Mortgage, payable $455 quarterly to 1957, due April 1, 1957 (due after one year) | | 67,950 |
| Fifteen Year 4½% Sinking Fund Debentures, due October 1, 1967 (due after one year; payable $200,000 annually to maturity) | | 2,600,000 |
| Employees' Profit Sharing- Stock Bonus and Retirement Plan accrual (payable in capital stock) (Note 4) | | 63,379 |
| Total liabilities | | $ 8,916,819 |
| Commitments and contingent liabilities (Note 7) | | — |

### CAPITAL

| | | | |
|---|---|---|---|
| Capital stock—Common, $4.00 par value per share | | | |
| Authorized | 1,000,000 shares | | |
| Outstanding | 438,428 shares | $ 1,753,712 | |
| Capital surplus (Note 5) | | 1,061,880 | |
| Earned surplus as annexed (Note 6) | | 4,190,111 | 7,005,703 |
| Total liabilities and capital | | | $15,922,522 |

The accompanying notes are an integral part of the financial statements.

1002332357

## BENSON AND HEDGES AND SUBSIDIARY COMPANIES

**Consolidated Statement of Earnings and Earned Surplus**
**for the calendar years ended December 31, 1950, 1951 and 1952**
**and for the ten months ended October 31, 1953**

| | Calendar years ended | | | 10 months ended |
|---|---|---|---|---|
| | December 31, 1950 | December 31, 1951 | December 31, 1952 | October 31, 1953 |
| Net sales (Note 8) | $10,362,063 | $14,130,058 | $19,958,343 | $22,386,703 |
| Cost of goods sold (Note 2) | 7,504,022 | 10,216,807 | 14,710,952 | 16,143,882 |
| Gross profit (Note 8) | $ 2,858,041 | $ 3,913,251 | $ 5,247,391 | $ 6,242,821 |
| Shipping, selling, advertising, general and administrative expenses (Note 8) | 1,418,445 | 1,838,502 | 2,553,413 | 2,918,671 |
| | $ 1,439,596 | $2,074,749 | $ 2,693,978 | $ 3,324,150 |
| Other income | 15,862 | 20,600 | 31,040 | 44,864 |
| | $ 1,455,458 | $ 2,095,349 | $ 2,725,018 | $ 3,369,014 |
| Other deductions: | | | | |
| Interest on debentures | — | — | 24,681 | 111,750 |
| Other interest charges | 29,849 | 101,737 | 105,992 | 60,868 |
| | $ 29,849 | $ 101,737 | $ 130,673 | $ 172,618 |
| Profit before federal taxes on income | $ 1,425,609 | $ 1,993,612 | $ 2,594,345 | $ 3,196,396 |
| Provision for federal taxes—Income | 593,264 | 976,810 | 1,319,834 | 1,619,294 |
| —Excess profits | 81,549 | 236,281 | 379,899 | 521,560 |
| | $ 674,813 | $ 1,213,091 | $ 1,699,733 | $ 2,140,854 |
| Net earnings | $ 750,796 | $ 780,521 | $ 894,612 | $ 1,055,542 |
| Earned surplus, beginning of period | 1,427,691 | 1,530,982 | 2,311,503 | 3,134,569 |
| | $ 2,178,487 | $ 2,311,503 | $ 3,206,115 | $ 4,190,111 |
| Deduct: | | | | |
| Transfer to capital account of excess of $4.00 par value of capital stock issued in exchange for no par value stock | 287,985 | | | |
| 10% stock dividend paid December 19, 1950 (35,952 shares at $10 per share) | 359,520 | | | |
| Unamortized debenture discount and expense | | | $ 71,546 | |
| | $ 647,505 | | $ 71,546 | |
| Earned surplus, end of period (Note 6) | $ 1,530,982 | $ 2,311,503 | $ 3,134,569 | $ 4,190,111 |

For additional information relative to the distribution of certain expenses, see the accompanying schedule of supplementary profit and loss information.

The accompanying notes are an integral part of the financial statments.

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# BENSON AND HEDGES AND SUBSIDIARY COMPANIES

## Notes Accompanying Consolidated Financial Statements

1. The financial statements of the company's three subsidiaries are included in the consolidated financial statements. At October 31, 1953, the company's investment in the stocks of subsidiaries amounted to $27,000; the net worth of such subsidiaries amounted to $91,775; the difference, $64,775, was included in earned surplus.

2. In accordance with generally recognized trade practice, tobacco in inventories is carried at average cost. The company computes such average cost by averaging at the end of each year the cost of tobacco on hand at the beginning of the year with that acquired during the year. As a result of averaging only on an annual basis, tobacco costs during the year must be stated on an estimated basis. The company believes, on the basis of present information, that the estimated tobacco costs used in the October 31, 1953 financial statements will closely approximate the actual costs on the foregoing basis when they are ascertainable at the end of the year. All other inventories are valued on the basis of first-in, first-out costs.

   It is a generally recognized trade practice to classify the total amount of leaf tobacco inventory as a current asset although part of such inventory, due to duration of aging processes, ordinarily would not be realized within one year. It is not practicable to estimate that portion of the leaf inventory amount at October 31, 1953 which might remain in the inventory at October 31, 1954.

   The amounts of all inventories were as follows:

| | |
|---|---|
| December 31, 1949 | $3,219,054 |
| December 31, 1950 | 6,190,255 |
| December 31, 1951 | 7,095,992 |
| December 31, 1952 | 8,672,028 |
| October 31, 1953 | 9,367,425 |

3. Depreciation of furniture and fixtures and machinery and equipment has been charged to profit and loss and credited to the respective asset accounts at the rate of 10% per annum on the depreciated balances at the beginning of the year and 5% on additions for the year. Proceeds from the sale or other disposition of such assets are credited directly to the asset account. Depreciation on the company's factory buildings has been charged at the rate of 2½% per annum.

   Any expenses of the nature of upkeep or maintenance incurred by the company in the course of operations are charged to cost of sales. Betterments are charged to fixed asset accounts.

4. Reference is made to the heading "Employees" under "Business of Benson and Hedges."

5. Capital surplus arose through the following:

| | |
|---|---|
| (a) Transfer to capital surplus of the excess amount of $6.00 per share over the par value of $4.00 per share of 35,952 shares issued as stock dividend, December 31, 1950, as determined by Board of Directors | $ 215,712 |
| (b) Excess of issue price over par value of shares issued in payment for accrual under "Employees' Profit Sharing—Stock Bonus and Retirement Plan"—1951—issued in 1952. | 31,994 |
| 1952—issued in 1953. | 46,805 |
| (c) Excess of issue price over par value of 39,738 shares sold as of November 2, 1952 | 774,891 |
| (d) Excess of issue price over par value of shares issued under "Employees' Restricted Stock Option Plan" | 1,683 |
| Total | $1,071,085 |
| (e) Less: Expense of issue of shares sold November 2, 1952 | 9,205 |
| Balance, October 31, 1953 | $1,061,880 |

6. Reference is made to the restrictions on dividends and the purchase or redemption of common stock described in "Description of Common Stock of Benson and Hedges." As of October 31, 1953, approximately $1,971,000 of earned surplus was free of such restrictions.

7. At October 31, 1953 the company had outstanding commitments for machinery and equipment aggregating approximately $750,000.

8. In previous reports, cash discounts were included as general and administrative expenses. Net sales, gross profit and general and administrative expenses, as reported herein, have been adjusted to reflect cash discounts as a deduction from sales.

## BENSON AND HEDGES
## AND SUBSIDIARY COMPANIES

### Supplementary Profit and Loss Information Consolidated
### for the years ended December 31, 1950, 1951 and 1952
### and for the ten months ended October 31, 1953

| Item | Charged to Profit and Loss (Note A) To Costs | Other | Total |
|---|---|---|---|
| Maintenance and repairs (see Note 3 to financial statements) | (Not readily available) | | |
| Depreciation and amortization of fixed assets: | | | |
| Years ended December 31 | | | |
| 1950 | $ 2,802 | $ 58,692 | $ 61,494 |
| 1951 | 2,802 | 86,743 | 89,545 |
| 1952 | 2,802 | 118,852 | 121,654 |
| Ten months ended October 31, 1953 | 11,701 | 137,579 | 149,280 |
| Taxes, other than income and excess profits taxes (Note B): | | | |
| Years ended December 31 | | | |
| 1950 | $3,442,832 | $125,194 | $3,568,026 |
| 1951 | 4,697,747 | 174,409 | 4,872,156 |
| 1952 | 7,086,749 | 224,522 | 7,311,271 |
| Ten months ended October 31, 1953 | 7,736,324 | 239,120 | 7,975,444 |
| Management and service contract fees | None for entire period | | |
| Rents and royalties: | | | |
| Years ended December 31 | | | |
| 1950 | | $ 11,670 | $ 11,670 |
| 1951 | | 21,964 | 21,964 |
| 1952 | | 30,419 | 30,419 |
| Ten months ended October 31, 1953 | | 25,878 | 25,878 |

NOTES:

(A) None of the items named were charged to accounts other than profit and loss accounts.

(B) Summarized as follows:

| | Years Ended December 31 1950 | 1951 | 1952 | Ten Months Ended October 31, 1953 |
|---|---|---|---|---|
| Federal Revenue stamps affixed to products sold | $3,436,722 | $4,690,871 | $7,078,015 | $7,720,867 |
| Real estate | 5,881 | 6,656 | 7,326 | 15,457 |
| New York State franchise | 56,775 | 78,748 | 109,832 | 118,262 |
| Unemployment and social security | 42,219 | 56,367 | 62,885 | 68,529 |
| Other | 26,429 | 39,514 | 53,213 | 52,329 |
| | $3,568,026 | $4,872,156 | $7,311,271 | $7,975,444 |

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